

**LODI CITY COUNCIL
SPECIAL CITY COUNCIL MEETING
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, FEBRUARY 22, 2005**

A. CALL TO ORDER / ROLL CALL

The Special City Council meeting of February 22, 2005, was called to order by Mayor Beckman at 7:02 a.m.

Present: Council Members – Hansen, Hitchcock, Johnson (left at 8:14 a.m.), Mounce, and Mayor Beckman

Absent: Council Members – None

Also Present: City Manager King, City Attorney Schwabauer, and City Clerk Blackston

B. REGULAR CALENDAR

B-1 “Review of mid-year budget adjustments as of December 31, 2004”

City Manager King explained that “a fund” is a self-balance set of accounts. There is a completely different structured set of books for each fund. He stated that the expected financial position that was anticipated at the beginning of the fiscal year would likely be reached on June 30, 2005; therefore, there are no adjustments being recommended.

Finance Director Krueger distributed the mid-year financial report (filed) and explained that Exhibit A is a summary of all “other funds” and Exhibit B pertains to the General Fund. He added that this reporting mechanism would take the place of what used to be called the “executive summary.” He noted that there is a tendency to use up a lot of cash between the period of July 1 and December 31. The cash position improves after the City gets property taxes and other revenues that are collected in the first part of the calendar year. A certain amount of cash is needed in all funds on an aggregate basis in order to continue to meet payroll, pay bills, and have a “cushion” to deal with emergencies that might arise. Mr. Krueger stated that each one of the funds is operating on a minimum basis. He noted that some of the reserves for capital outlay are not addressed in the report. He explained that the City borrowed some money that is set aside into restricted cash balances, which can only be used for capital outlay. In some cases, there is a requirement that the City have a reserve in place for one year’s worth of debt service. Overall, Mr. Krueger reported that departments are spending less than what the budget amounts are and revenues are “looking good” as well.

Referencing Exhibit A, page 1, Mr. Krueger noted that the Library Fund balance at the beginning of the fiscal year was \$654,368 and as of December 31 was \$49,374. The Capital Outlay Fund on page 2 started the year with \$6,900,519 and as of December 31 was \$8,719,537. Approximately \$1 million is in unrestricted cash. There is a repayment that is due to the Electric Utility fund of \$2.4 million and there are other impact mitigation fee type categories within the capital outlay fund. Mr. Krueger stated that the Capital Outlay Fund has been used in the past to help with the General Fund. He explained that there was money transferred into the Capital Outlay Fund over the last two to three years that was transferred back into the General Fund. On page 4 Community Development Block Grant (CDBG) and HOME Funds have \$1,089,110 in revenue scheduled. Currently, there is a negative fund balance of -\$6,068; however, Mr. Krueger stated that as funds are received that balance will correct itself.

In answer to Council Member Johnson, Community Development Director Bartlam reported that the cost of Community Development and the Finance Department to administer the CDBG and HOME programs is factored into the budgeted amount.

Mr. Krueger noted that on Exhibit A, page 5, the Police Special Revenue Fund started the year with \$352,581 and as of December 31 it had a fund balance of \$415,848.

In reply to Council Member inquiries, City Manager King stated that the Police Special Revenue Fund is used to supplement Police Department operations. It does not supplant any General Fund revenue.

Police Chief Adams explained that there are two fund balances related to asset seizure funds, i.e. state and federal. Both state and federal law specifically state that cities cannot supplant those funds for general budget items.

In reference to Exhibit A, page 6, Mr. Krueger reported that gas tax, Measure K monies, and some impact mitigation fees go into the Street Fund. The fund balance at the beginning of the fiscal year was \$2,857,924 and as of December 31 was \$3,976,695. He noted that some of street maintenance cost is borne by the General Fund.

Mr. King stated that in some cities the size of their street division represents 100% of its gas tax funds. In Lodi, the street division is in excess of available gas tax funds.

Mr. Krueger reported that 30% of property tax is allocated to go toward repayment of the debt that was issued for the new police facility and to finance the remodeling of Hutchins Street Square. As the City's property tax continues to increase, there will be more revenue being dedicated to repayment of the debt than there are expenditures. In the current year, that gap amounts to \$150,000. Lodi's property tax revenue has been increasing annually between 7% to 10%. Mr. Krueger recommended using the excess revenue to fund services instead of setting up a "sinking fund" for the debt service.

Referencing Exhibit A, page 8, Mr. Krueger stated that the Water Fund includes operations, impact mitigation fees, and a portion of rates being paid for infrastructure replacement. The fund balance as of December 31 was \$1,631,383 and is predicted to be \$192,492 at the end of this fiscal year. On page 9, the Wastewater Fund shows a balance of \$2,348,559 as of December 31. Mr. Krueger noted that because the costs of the Environmental Abatement Program are not fully known at this time, it is unknown what the impact on rates would be. He acknowledged that the City is spending money currently that it does not have included within the rate structure. On page 10, the Electric Fund shows an anticipated fund balance at the beginning of the fiscal year of \$2,721,119 with a year-to-date actual of \$9,926,089. Mr. Krueger stated that this difference was a result of projects that were anticipated to be built by the end of the year, but were not. The Electric Fund balance as of December 31 was \$8,132,800.

In response to Mr. Krueger's comments, Council Member Johnson asked what projects were planned, but not built.

Electric Utility Director Vallow disagreed with Mr. Krueger's explanation and explained that the difference between \$2,721,119 and the year-to-date actual of \$9,926,089 was the fact that 65% of annual revenue comes in during the first four months of the fiscal year. Revenue decreases during the winter months when less air conditioning is used. Mr. Vallow reported that \$12.1 million in Certificate of Participation (COP) capital funds is set aside and held by a trustee. He also stated that the Utility had an interest rate swap that had a "mark to market" of approximately \$5 million and Salomon Smith Barney "gave us \$5 million for forgetting we ever had the thing." Mr. Vallow reported that power costs last year were lower than what was budgeted.

Mayor Pro Tempore Hitchcock asked what the status was on the proposed new Electric Utility Service Center project.

Mr. Vallow replied that, according to federal tax law, the City can hold the COP funds indefinitely. He stated that as a practical matter, the Utility has a five-year schedule of expenditure for capital programs, which includes \$4 million this year for line extensions,

street light, and large capital replacements, \$6 million the following year, and \$7 million the third year. Mr. Vallow stated that, in total, the capital projects anticipated over five years is \$21 million. He reiterated that there is currently \$12 million in trustee-held funds. He explained that the remaining amount would be made up from revenues. He had hoped that the new Service Center could be built for \$6 million; however, the estimate received was for \$8.5 million. He stated that, hopefully beginning this year, the Utility will begin setting aside operating revenues to fund capital projects.

Addressing City Manager King, Mayor Pro Tempore Hitchcock asked that the Electric Utility budget be more carefully reviewed.

Council Member Hansen recalled that he had previously requested that a Shirtsleeve Session be scheduled on the topic of Electric Utility and the Northern California Power Agency.

Mayor Beckman asked City Manager King to schedule the Shirtsleeve Session on the topics as requested by Ms. Hitchcock and Mr. Hansen.

Referencing Exhibit A, page 11, Mr. Krueger noted that the Transit Fund, as of December 31, has a negative balance of -\$1,454,909. He anticipated that with additional receivables coming in the deficit will be alleviated by the end of the fiscal year. Mr. Krueger explained that the Benefits Fund shown on page 12 is an internal service fund that includes health, dental, and insurance premiums for all City employees. As of December 31, this fund had a deficit of -\$523,968. Mr. Krueger stated that this year he included the cost of health insurance in each department's budget. He commented that these costs have been "below the line" in the past and have not been charged directly to departments. Mr. Krueger stated that he would not make the recommendation that the deficit be alleviated at this time by charging departments, because it would be difficult enough for them to reach 2005-06 targets without adding another \$500,000. He did suggest, however, that it be evaluated for future purposes. The Self Insurance Fund listed on page 13 accounts for all liability and Workers Compensation expenditures. The fund balance as of December 31 was \$2,462,759.

Kirk Evans, Risk Manager, stated that the City ideally should have between \$3 million to \$4 million in the Self Insurance Fund. He informed Council that it would receive a copy of the most recent actuary report.

NOTE: At 8:14 a.m. Council Member Johnson left the meeting.

In reference to Exhibit A, page 14, Mr. Krueger reported that the Vehicle and Equipment Replacement Fund balance as of December 31 was \$473,644. The Trust and Agency Fund shown on page 15 had a balance of \$855,246 on December 31. He explained that amounts held in trust are for landscaping and maintenance districts as well as the library endowment in excess of \$643,000 for future remodeling or construction.

MOTION / VOTE:

There was no Council action taken on this matter.

C. CLOSED SESSION

At 8:20 a.m., Mayor Beckman adjourned the Special City Council meeting to a Closed Session to discuss the following matters:

- C-1 Conference with legal counsel – anticipated litigation – significant exposure to litigation pursuant to subdivision (b) of Section 54956.9; one case; pursuant to Government Code §54956.9(b)(3)(A) facts, due to not being known to potential plaintiffs, shall not be disclosed

- C-2 Actual Litigation: Government Code §54956.9(a); one case; City of Lodi v. City of Stockton, et al., San Joaquin County Superior Court, Stockton Branch, Case No. CV024720
- C-3 Actual Litigation: Government Code §54956.9(a); one case; City of Stockton v. City of Lodi, San Joaquin County Superior Court, Stockton Branch, Case No. CV024859
- C-4 Actual Litigation: Government Code §54956.9(a); one case; Stockton Family Farmers Coalition v. City of Lodi, et al., San Joaquin County Superior Court, Stockton Branch, Case No. CV024860

The Closed Session adjourned at 8:30 a.m.

D. RETURN TO OPEN SESSION / DISCLOSURE OF ACTION

At 8:30 a.m., Mayor Beckman reconvened the Special City Council meeting, and City Attorney Schwabauer announced that no reportable action was taken in Closed Session.

E. TOUR

- E-1 "Tour of Salvation Army's Hope Harbor facility, 622 N. Sacramento Street"

NOTE: Attending the tour of the Salvation Army's Hope Harbor facility, which commenced at 8:40 a.m. and ended at 9:00 a.m., was Mayor Beckman and Council Member Hansen.

MOTION / VOTE:

There was no Council action taken on this matter.

F. ADJOURNMENT

There being no further business to come before the City Council, the meeting was adjourned at 9:00 a.m.

ATTEST:

Susan J. Blackston
City Clerk